By EDWARD I. STEINBERG

Consumer Credit, 1960-80

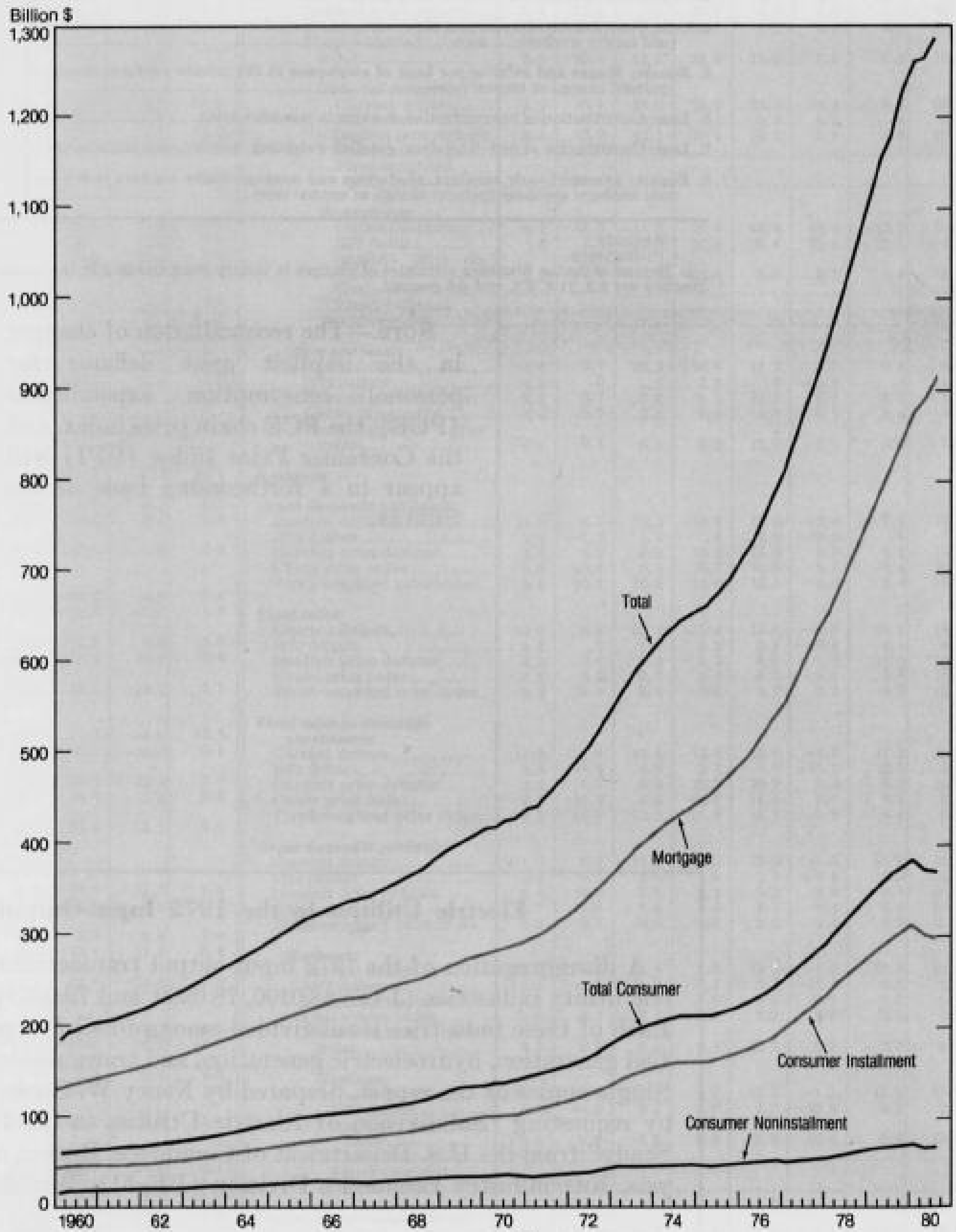
CONSUMER credit outstanding stood at almost $400 billion in 1980, an amount equal to about one-fifth of disposable personal income, and almost 30 percent of total household credit outstanding. This article reviews the major statistical series on consumer credit. It focuses on trends since 1960 and on cyclical patterns during the period, with emphasis on developments in 1980.

Consumer credit consists of credit that is extended to individuals through regular business channels—preponderantly commercial banks, finance companies, credit unions, and retailers—to finance the purchase of consumer goods and services, or to refinance debts incurred for such purposes. Consumer credit excludes loans to individuals for business purposes, policy loans of life insurance companies, loans made by one individual to another, and loans made by employers to their employees.

About four-fifths of consumer credit outstanding consists of installment credit, which is defined as consumer credit that is scheduled to be repaid (or that provides the option of repayment) in two or more payments. Published data distinguish four components of consumer installment credit: automobile, revolving (mainly credit card), mobile home, and "other."[1] Noninstallment credit consists of consumer credit that is scheduled to be repaid in a lump sum; its main components are single-

CHART 1

Household Credit Outstanding



Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis

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1. As the inclusion of mobile home credit (and also home improvement loans) suggests, the coverage of consumer credit differs from that of personal consumption expenditures in the national income and product accounts.

Credit on gasoline credit cards used by individuals has been defined as installment credit since the beginning of 1971; previously, it was defined as noninstallment credit. Although it increased more than 46 percent from December 1978 to December 1980, gasoline credit represented only 1.5 percent of consumer installment credit outstanding in December 1980.

payment loans, charge accounts, and credit extended by providers of services, such as doctors and hospitals.

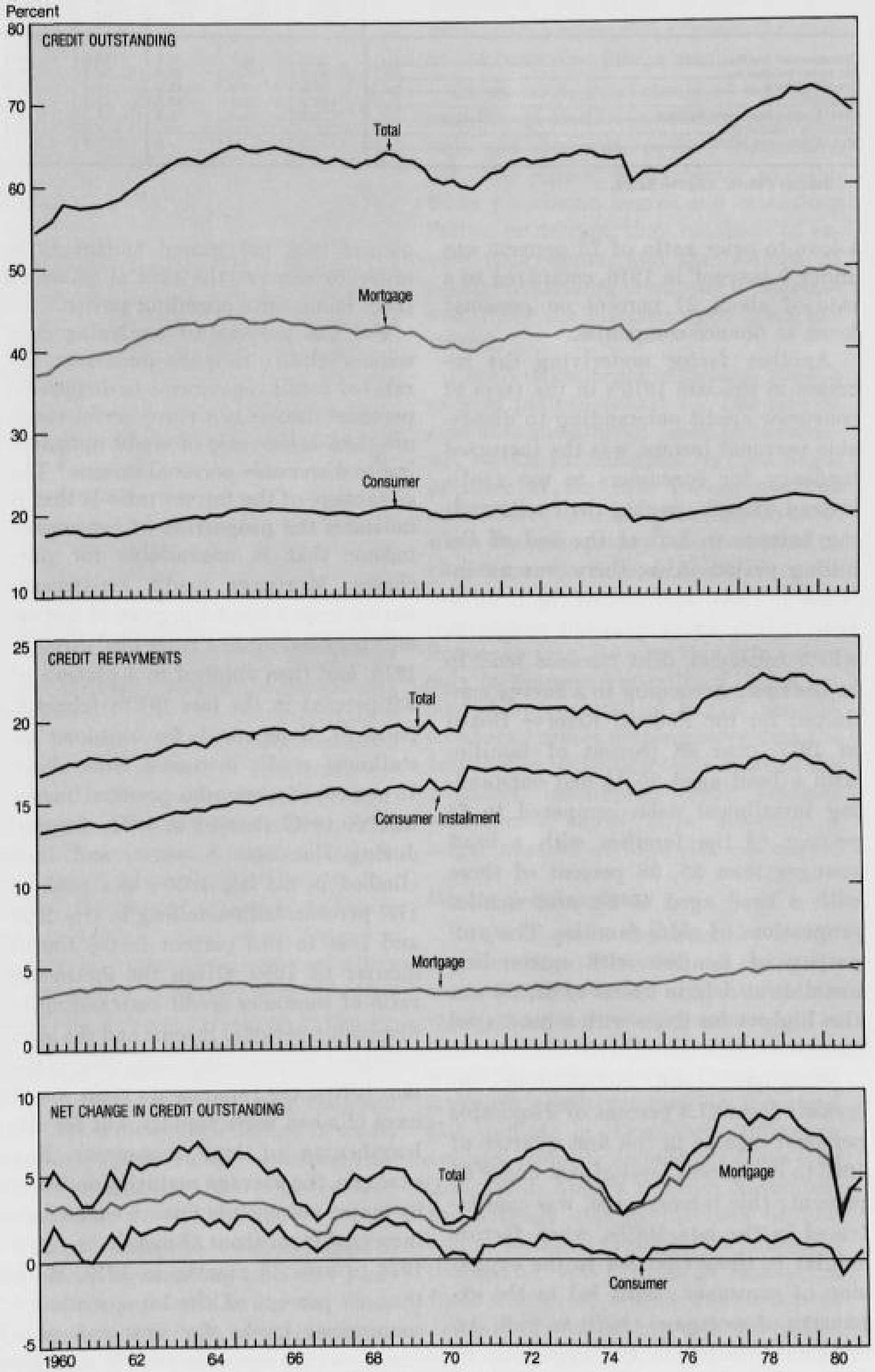
Trends since 1960

Consumer credit outstanding increased 541 percent, from $60.0 to $384.4 billion, from the first quarter of 1960 to the first quarter of 1980 (chart 1). By comparison, mortgage credit outstanding, the other component of total household credit, increased 580 percent, from $128.9 to $876.5 billion, during the same period. Consumer credit thus accounted for about 30 percent of total household credit outstanding during the period. Consumer credit increased more rapidly than did mortgage credit during the 1960's, but the reverse was true during the 1970's, when house prices rose very rapidly.

A perspective on the extent of the credit burden is obtained by relating the amount of credit outstanding to the level of consumers' incomes. Consumer credit outstanding increased from 17.4 percent of disposable personal income in the first quarter of 1960 to a high of 22.2 percent in the second quarter of 1979, before dropping to 19.8 percent in the fourth quarter of 1980 (see the discussion of "Recent developments" later in this article); much of the increase occurred in the late 1970's (chart 2, panel 1). The rapid inflation of the late 1970's made credit more attractive, because consumers expected the fixed repayment amounts to constitute a declining percentage of their inflation-bolstered incomes. Also, there was a decline in the "real" interest rate on consumer credit; for example, from 1976 to 1979 the interest rate on personal loans at major finance companies hovered around 20–21 percent, while the rate of increase in prices of personal consumption expenditures accelerated from about 5 percent in 1976 to about 9 percent in 1979. Given the increased attractiveness of credit, consumer credit might have increased more rapidly in the late 1970's, except that mortgage credit was used by some consumers as a substitute for consumer credit, because they found mortgage credit cheaper, or more accessible, or both. The contract interest rate on a 25-year mortgage with

CHART 2

Selected Household Credit Measures as a Percentage of Disposable Personal Income



Seasonally Adjusted at Annual Rates

Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis

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Table 1.—Distribution of Consumer Installment Credit Outstanding by Type of Extender, Selected Years

[Percent]

	1960 Jan.	1965 Jan.	1970 Jan.	1975 Jan.	1980 Jan.
Commercial banks	41.9	42.7	45.8	48.8	49.4
Finance companies	34.3	33.1	27.6	21.9	22.1
Credit unions	8.0	9.6	11.9	13.3	14.9
Retailers	14.3	13.2	12.7	10.7	8.8
Savings and loan associations	1.3	1.0	1.1	2.7	2.7
Gasoline companies	------	------	------	1.6	1.3
Mutual savings banks	.3	.5	.8	.9	.9

Source: Federal Reserve Board.

a loan-to-price ratio of 75 percent was under 9 percent in 1976, compared to a rate of about 21 percent on personal loans at finance companies.

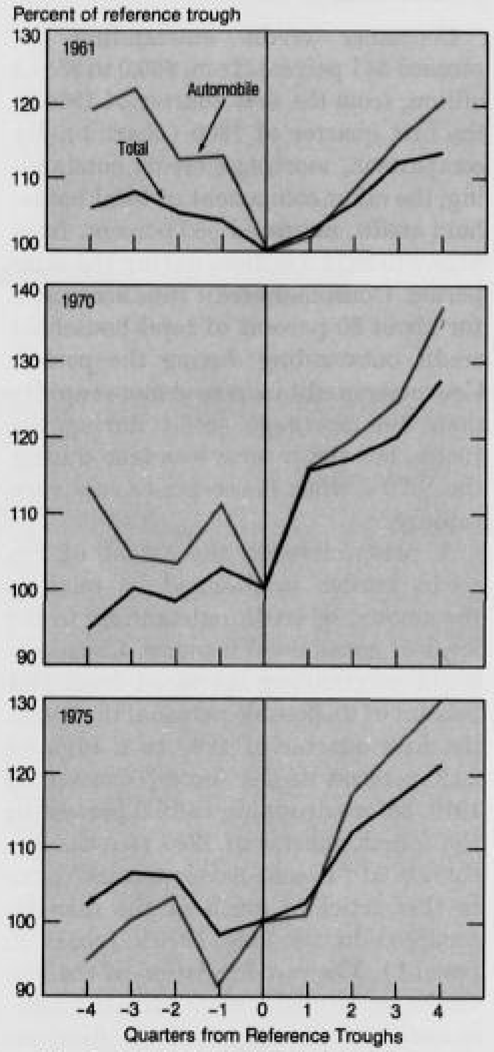
Another factor underlying the increase in the late 1970's in the ratio of consumer credit outstanding to disposable personal income was the increased tendency for consumers to use credit instead of cash, paying their outstanding balance in full at the end of the billing period. Also, there was an increase in the proportion of the population in the 25–44 year-old range, in which consumer debt burdens tend to be heaviest. According to a survey conducted for the Federal Reserve Board in 1977, over 68 percent of families with a head aged 25–44 had outstanding installment debt, compared to 65 percent of the families with a head younger than 25, 58 percent of those with a head aged 45–54, and smaller proportions of older families. The proportion of families with outstanding installment debt in excess of $3,000 was also highest for those with a head aged 25–44.[2]

Mortgage credit outstanding increased from 37.3 percent of disposable personal income in the first quarter of 1960 to its current level of just under 50 percent; this increase, too, was concentrated in the late 1970's, when factors similar to those that led to the expansion of consumer credit led to the expansion of mortgage credit as well. An additional factor in the expansion of mortgage credit was that some homeowners took out second mortgages in order to convert the capital gains on their homes into spending power.

For the purpose of analyzing consumers' ability to make purchases, the ratio of credit repayments to disposable personal income is a more useful measure than is the ratio of credit outstanding to disposable personal income.[3] The advantage of the former ratio is that it indicates the proportion of consumers' income that is unavailable for purchases. Mortgage credit repayments varied from 3.5 to 4.2 percent of disposable personal income from 1960 through 1975, and then climbed to a plateau of 5.0 percent in the late 1970's (chart 2, panel 2). Repayments for consumer installment credit increased from about 13 percent of disposable personal income in 1960 to 17 percent in 1971, dropped during the next 4 years, and then climbed in the late 1970's to a peak of 17.7 percent, before falling in late 1979 and 1980 to 16.3 percent in the fourth quarter of 1980. Given the increasing ratio of consumer credit outstanding to disposable personal income and the high consumer interest rates prevailing in the late 1970's, the repayments ratio would have climbed more rapidly, but for the lengthening of loan maturities. For example, the average maturity on loans by major automobile finance companies increased from about 38 months in early 1976 to over 44 months in 1979. More than 60 percent of the loans made by commercial banks for new car purchases in 1979 were for over 36 months, compared to less than 20 percent in 1975.

CHART 3

Consumer Installment Credit Extensions in Business Cycles



Note.—Based on seasonally adjusted data. Years indicate reference troughs as designated by the National Bureau of Economic Research.

Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis 81-2-3

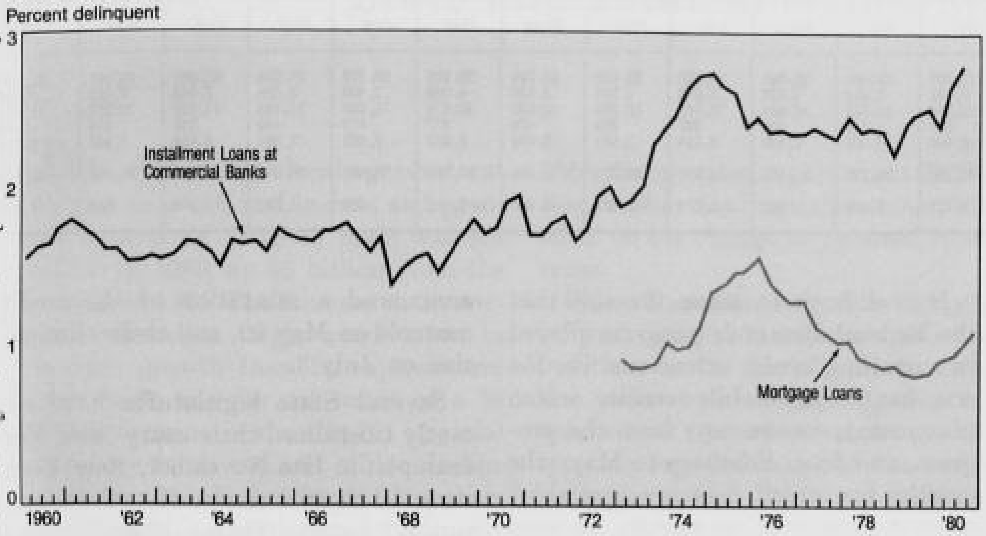
Table 1 shows the changes over time in the distribution of installment credit outstanding by type of extender. The decline in the share of installment credit provided by finance companies reflects the partial withdrawal of these companies from the automobile credit market; finance companies had provided 44.3 percent of the automobile credit outstanding in January 1960, but only 23.8 percent of the amount outstanding in January 1980. The increase in the share provided by commercial banks and the decline in the share provided by retailers reflect, in part, the aggressiveness of commercial banks in pro-

2. Board of Governors of the Federal Reserve System, *1977 Consumer Credit Survey*, December 1978, pages 95–96.

3. "Repayments" includes the majority of interest payments on consumer installment credit, as well as principal payments.

CHART 4

Loan Delinquency Rates



Note.— The rate on installment loans is seasonally adjusted and refers to the percent of accounts delinquent 30 days or more. The rate on mortgages is based on dollar amounts delinquent 60 days or more.

Data: Federal Reserve Board, Federal Home Loan Bank Board

U.S. Department of Commerce, Bureau of Economic Analysis

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moting their credit cards. The Federal Reserve study cited earlier reported that the proportion of families using bank credit cards increased from 19 percent in 1971 to 35 percent in 1977, and that the proportion using retail cards increased only from 45 percent in 1971 to 50 percent in 1977.[4] The sharp increase in the share of installment credit provided by credit unions is associated with the sharp increase in their importance as depository institutions; savings at credit unions increased tenfold from 1960 to 1979. The partial replacement of finance companies as sources of automobile credit by commercial banks and credit unions has probably made such credit available at lower interest rates.

Cyclical patterns

The third panel of chart 2, which traces the net change in credit outstanding as a percentage of disposable personal income, shows the slowing of credit growth that occurred in the recessions that troughed in the first quarter of 1961, the fourth quarter of 1970, the first quarter of 1975, and the second quarter of 1980. The net change in credit outstanding in any period is the difference between the amount of credit extended during the period and the amount repaid. Because repayments are a function of *prior* credit extensions over a period of time, it is in credit extensions that cyclicality is more evident. As shown in chart 3 for the 1961, 1970, and 1975 recessions, consumer installment credit extensions are flat or declining in the several quarters before a cyclical trough, after which they rise sharply. Mirroring the greater volatility of automobile purchases than of other purchases, cyclical variations in the automobile credit component are sharper than those in total consumer installment credit extensions. For reasons discussed later in this article, the decline in credit extensions—both total and automobile—was unusually sharp in the 1980 recession.

The net change in consumer installment credit outstanding generally leads the business cycle.[5] During the early phases of an economic recovery, repayments, which are influenced by the low level of extensions during the recession, increase more slowly than do extensions. As the recovery continues, however, repayments begin to increase faster than extensions, and the net change in credit outstanding turns down before the peak of the business cycle is reached.

In contrast, the volume of consumer installment credit outstanding generally lags the business cycle.[6] Extensions normally exceed repayments; so, even when a recession begins and extensions flatten or decline, they continue to exceed repayments, and the volume of credit outstanding continues to increase even after the business cycle peak has passed.

Credit delinquency rates also show a cyclical pattern (chart 4). The rate on consumer installment loans at commercial banks, for example, reached highs in three of the four trough quarters cited above. (The exception was in 1980, when the delinquency rate continued to rise from the second quarter to the third.) Superimposed on the cyclical pattern is a secular uptrend in this delinquency rate. Because this rate refers only to consumer installment loans extended by commercial banks, the uptrend may reflect nothing more than the fact that in increasing their share of the consumer installment credit market, commercial banks have accepted a larger number of high-risk customers.

Recent developments

Table 2 shows the monthly movements during 1980 in the net change in consumer installment credit outstanding, in repayments, in extensions, and in those components of total extensions for which data are available. Consumer installment credit outstanding increased $1.6 billion in December, following average monthly increases of one-half that size in August through November, and average monthly declines of $1.9 billion in April through July. Behind the decline was a drop in extensions, from a high of almost $28 billion in January to a low of just over $22 billion in May. Automobile credit, which had accounted for less than 29 percent of

4. *1977 Consumer Credit Survey*, pages 87–88.

5. In *Business Conditions Digest*, this series is classified as leading at peaks, at troughs, and at peaks and troughs combined. See page 32 of the January 1981 issue.

6. In *Business Conditions Digest*, this series is classified as lagging at peaks, at troughs, and at peaks and troughs combined. See page 35 of the January 1981 issue.

Table 2.—Developments in Consumer Installment Credit, 1980

[Millions of dollars, seasonally adjusted]

	1980											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Extensions	27,823	27,581	25,881	23,220	22,093	22,348	23,907	26,176	27,664	27,308	25,991	27,149
Automobile	8,441	7,973	7,372	5,922	5,533	5,550	6,068	7,400	7,518	7,644	7,117	7,234
Revolving	10,600	10,756	10,634	10,347	10,302	10,341	10,679	10,700	11,143	11,124	10,953	11,614
Mobile home	522	452	435	397	299	424	377	416	442	613	424	479
Other	8,400	8,400	7,440	6,554	5,959	6,034	6,878	7,661	7,901	8,184	7,497	7,822
Repayments	25,106	25,178	25,227	24,891	24,770	24,394	25,106	25,687	26,089	26,605	25,153	25,530
Net change in amount outstanding	2,727	2,403	654	−1,671	−2,677	−2,046	−1,199	489	1,553	703	838	1,619

Source: Federal Reserve Board.

the installment credit extended in 1979, accounted for about 50 percent of the January-to-May drop in extensions.

Factors behind the January-to-May drop in credit extensions were the recession and the associated drop in consumer incomes and concern over possible future income losses; high consumer interest rates—for example, the rate on a 36-month commercial bank loan for the purchase of a new automobile was 15.72 percent in May, up from 13.28 percent in February; cost pressures on credit extenders, who were limited in their ability to raise interest rates by State usury laws; and the credit control program announced by the Federal Reserve Board on March 14 (see the "Business Situation" in the March 1980 SURVEY OF CURRENT BUSINESS).[7]

It is difficult to assess the role that the Federal Reserve's program played in curtailing credit extensions. On the one hand, automobile credit, which plummeted, was exempt from the program, and from February to May (the months for which data are available) interest rates rose as rapidly on auto loans as on other consumer loans. On the other hand, announcement of the program apparently caused some consumers to curtail their use of credit and some credit extenders to tighten up on the granting of credit—for example, by requiring larger monthly payments or by raising eligibility requirements for credit use.[8] Because of the very sharp drop in credit use, the Federal Reserve announced a relaxation of the credit controls on May 22, and their elimination on July 3.

Several State legislatures have recently liberalized their usury laws. For example, in late November, New York removed its civil usury ceiling from consumer loans. These liberalizations would support the upturn in consumer credit that seemed underway by December. Facilitating such an upturn is the reduced burden of consumer credit; as noted earlier, consumer installment credit repayments were equal to only 16.3 percent of disposable personal income in the fourth quarter of 1980, the lowest level in 4 years. The strength of any upturn will depend, of course, on auto sales; extensions of automobile credit were down in November–December from the previous 3 months.

7. There is evidence of increasing consumer awareness of the interest rates on consumer credit. (See *1977 Consumer Credit Survey*, chapter 2.) It is not clear, however, whether the demand for consumer credit is becoming more sensitive to changes in interest rates.

8. For a description of the responses of various credit extenders to the program, see U.S. House of Representatives, Committee on Banking, Finance and Urban Affairs, *Credit Controls: An Evaluation*, U.S. Government Printing Office, 1980.